

Message Text

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ACTION EA-09

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 7180

INFO AMEMBASSY BANGKOK

AMEMBASSY MANILA

AMEMBASSY PARIS

CINCPAC HONOLULU HI

C O N F I D E N T I A L HONG KONG 11421

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: ECON, VS

SUBJECT: INDUSTRIAL PROBLEMS IN SOUTH VIETNAM

SUMMARY: DESPITE GLOWING OFFICIAL VIETNAMESE ANNOUNCEMENTS THAT FACTORIES IN THE SOUTH ARE RESUMING PRODUCTION, SVN INDUSTRY IS UNDERGOING CONSIDERABLE PARALYSIS WITH BLEAK PROSPECTS FOR THE IMMEDIATE FUTURE. THIS WAS THE VIEW OF A VIETNAMESE PAPER MANUFACTURER WHO RECENTLY LEFT SAIGON. WHILE SOME INDUSTRIES, SUCH AS THE PAPER INDUSTRY, MIGHT SURVIVE, HE BELIEVED THEY WOULD BE LESS EFFICIENT AND PROSPECTS FOR THE LONG TERM WOULD DEPEND ON WHETHER THE NEW GOVERNMENT INSTITUTES PROPER PLANNING AND PROVIDES ABLE MANAGEMENT.
END SUMMARY

1. A CHOLON CHINESE, WHO DEPARTED SAIGON ON AUG. 26 VIA THE FRENCH AIRLIFT, DESCRIBED THE DIFFICULTIES WHICH CONFRONTED HIM AS AN ENTREPRENEUR UNDER THE NEW REGIME.

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THIS MANUFACTURER OWNED ONE OF THE EIGHT PAPER MILLS LOCATED

IN THE SAIGON/BIEN HOA AREA. HIS PLANT, WHICH WAS LOCATED ON THE OUTSKIRTS OF THU DUC NEAR BIEN HOA, HAD A 15 TON PER DAY CAPACITY AND EMPLOYED 130 WORKERS. IT WAS STILL FUNCTIONING WHEN HE LEFT. ASKED WHY HE DEPARTED, HE EXPLAINED THAT ALTHOUGH THE PLANT WAS STILL OPERATING, THERE WERE ONLY ENOUGH RAW MATERIALS LEFT FOR TWO MONTHS. THE PULP USED BY THE PLANT ALL CAME FROM THE US. PULP FROM LOCAL BAMBOO COULD BE PRODUCED BUT THIS REQUIRED LARGE QUANTITIES OF CAUSTIC SODA WHICH WAS MANUFACTURED ONLY IN SMALL AMOUNTS IN VIET NAM AND WAS DIFFICULT TO OBTAIN. COMPOUNDING HIS PROBLEMS WERE NEW GOVERNMENT REGULATIONS REQUIRING ALL PRODUCED MATERIALS BE SOLD TO THE GOVERNMENT WHICH IN TURN MADE PAYMENT FOR GOODS THROUGH THE BANK. IT WAS EXTREMELY DIFFICULT TO WITHDRAW MONEY FROM THE BANK AND ONE WAS REQUIRED TO FILE A WITHDRAWAL APPLICATION IN ADVANCE AND WAS LIMITED TO A WITHDRAWAL OF \$VN 100,000. THERE WERE NO GOVERNMENT CADRE ASSIGNED TO THE PLANT, BUT A WORKERS COMMITTEE HAD BEEN FORMED WHICH CAUSED DIFFICULTIES IN THE MANAGEMENT OF THE OPERATION. AFTER AN INITIAL ATTEMPT AT MAKING A GO OF IT UNDER THE PRG, HE FINALLY GAVE UP.

2. THE MANUFACTURER BELIEVED THAT THE GOVERNMENT COULD KEEP ALL EIGHT PAPER MILLS OPERATING IF IT EMPLOYED THEIR RESOURCES PROPERLY. COMMENTING ON A GIAI PHONG PRESS AGENCY REPORT OF SEPT. 17 THAT THE STATE-RUN COGIDO PAPER MILL IN BIEN HOA REDUCED THE USE OF IMPORTED MATERIALS AND HAS BEEN USING 74 PER CENT HOME-FOUND MATERIALS, HE REMARKED WRYLY THAT THIS COULD BE ACHIEVED BY CUTTING PRODUCTION. HE DESCRIBED THE COGIDO OPERATION AS A MODERN PLANT WITH US, JAPANESE AND DUTCH EQUIPMENT EMPLOYING 3-400 WORKERS WITH A CAPACITY TO PRODUCE 80 TONS OF PAPER PER DAY. HE NOTED THAT COGIDO HAD A LIMITED CAPABILITY FOR MAKING LIQUID CAUSTIC SODA AND COULD PRODUCE LOCAL PULP. THE PULP WOULD BE MADE FROM STRAW PRODUCED IN THE DELTA OR FROM BAMBOO. STRAW INVOLVED LARGE SHIPPING COSTS AND BAMBOO REQUIRED LARGE AMOUNTS OF CAUSTIC SODA. IN MAKING CAUSTIC SODA AND IN BLEACHING LOCAL PULP, LARGE AMOUNTS OF ELECTRICITY WERE REQUIRED. THE PRODUCTION OF CAUSTIC SODA ALSO RESULTED IN THE ACCUMULATION OF CHLORINE WHICH HAD NO INDUSTRIAL MARKET IN VIET-

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NAM AND WAS BOTHERSOME TO DISPOSE OF. COGIDO HAD WELL TRAINED VIETNAMESE TECHNICIANS WHO WERE CAPABLE OF KEEPING THEIR PLANT RUNNING.

3. THERE WAS ONE OTHER STATE-RUN PLANT IN THE AREA, THE VIETNAM PAPER MILL, WHICH MANUFACTURED NEWSPRINT. FIVE OTHER PRIVATE PLANTS WERE ALSO IN THE AREA OF WHICH TWO COULD NOT PRODUCE PULP AND WOULD THEREFORE HAVE TO BUY PULP OR

USE WASTE PAPER.

5. PROBLEMS FOR THE FUTURE: THE MANUFACTURE BELIEVED THE VIET NAM PAPER INDUSTRY FACED THREE MAIN PROBLEMS, A SHORTAGE OF RAW MATERIALS, A SHORTAGE OF TECHNICIANS, AND A SHORTAGE OF SPARE PARTS FOR ITS WESTERN MADE EQUIPMENT. THE RAW MATERIALS COULD BE REPLACED WITH LOCAL MATERIALS, BUT THIS WOULD RESULT IN LOWER PRODUCTION, HIGHER COSTS AND A POORER QUALITY PRODUCT. COGIDO TECHNICIANS COULD BE USED PART TIME IN OTHER PLANTS WHERE MANY TECHNICIANS SOME OF WHOM WERE FOREIGN HAD FLED. SPARE PARTS COULD BE OBTAINED IF THE GOVERNMENT PROVIDED THE HARD CURRENCY. STEEL WIRE AND FELT BELTS WOULD ALSO HAVE TO BE IMPORTED FOR THE MISSILES. IN THE END THE GOVERNMENT WOULD PROBABLY TAKE OVER ALL THE PLANTS, SPECIALIZE EACH PLANT IN THE PRODUCTION OF DIFFERENT ITEMS AND KEEP OPERATIONS GOING, ALBEIT AT A REDUCED AND MORE EXPENSIVE LEVEL. IF, HOWEVER THERE WAS POOR MANAGEMENT OR IMPROPER PLANNING, PRODUCTION STOPPAGE WOULD CERTAINLY RESULT.

6. TURNING TO THE STATUS OF INDUSTRIAL PRODUCTION IN GENERAL, THE MANUFACTURER DESCRIBED THE SOUTH VIETNAMESE ECONOMY AS BEING EXTREMELY DEPRESSED. THE CLOSING OF FACTORIES BANKS AND MANY SERVICES PLUS THE TROOPS FROM THE DEFUNCT RVNAF PLACED AN ENORMOUS NUMBER OF UNEMPLOYED ON THE MARKET. CONSTRUCTION, AT LEAST BY THE PRIVATE SECTOR, HAD COME TO A COMPLETE HALT. MANY FACTORIES IN THE SAIGON AREA WERE SHUT. THESE ASSOCIATED WITH PLASTICS OR METAL WERE DARDEST HIT BECAUSE OF THE LACK OF RAW MATERIALS. SOME PLANT OWNERS HAD MATERIALS IN PUBLIC WAREHOUSES OR WAREHOUSES CONTROLLED BY THE PRIVATE BANKS BUT WERE UNABLE TO REMOVE THEM. ANOTHER MAJOR CAUSE FOR CLOSURE WAS THE DISAPPEARANCE OF MARKETS SUCH AS THE PARALYZED CONSTRUCTION INDUSTRY. FOOD

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PROCESSING PLANTS SUCH AS NOODLE FACTORIES AND CANNING FACTORIES HAVE BEEN NATIONALIZED.

7. COMMENT: WHILE NONE OF THE ABOVE INFORMATION COMES AS ANY SURPRISE, IT IS STILL INTERESTING TO HAVE FIRST HAND CONFIRMATION AND TO HEAR THE REACTION OF A BOURGEOIS WHO TRIED TO MAKE IT UNDER THE NEW SYSTEM. IT WOULD SEEM FAIR TO ASSUME THAT DESPITE JOYOUS ANNOUNCEMENTS SUCH AS GPA'S REPORT OF SEPT. 17 THAT 1,604 FACTORIES HAVE RESUMED OPERATIONS, THE VIETNAMESE ARE GOING TO HAVE SOME TROUBLE GOING BEFORE THEY STABILIZE THEIR ECONOMY. MANY FACTORIES WILL PROBABLY NEVER REOPEN AND SOME OF THOSE THAT DO MAY WELL HAVE TO CLOSE AS RAW MATERIALS ARE DEPLETED AND MACHINES BREAK DOWN. IN TIME, WITH PROPER MANAGEMENT AND SOME IMAGINATION, THE VIETNAMESE SHOULD HAVE THEIR INDUSTRY FUNCTIONING AGAIN BUT THIS WILL DEPEND A GREAT

DEAL ON TO WHAT EXTENT ABLE PEOPLE ARE GIVER AUTHORITY AND
NOT HARASSED BY POLITICALLY CHOSEN BUREAUCRATS.
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